



The Commonwealth of Massachusetts

AUDITOR OF THE COMMONWEALTH

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NO. 2010-4542-3C

**INDEPENDENT STATE AUDITOR'S REPORT
ON CERTAIN ACTIVITIES OF THE
MIDDLESEX HUMAN SERVICE AGENCY
JULY 1, 2006 TO MAY 31, 2010**

**OFFICIAL AUDIT
REPORT
FEBRUARY 15, 2011**



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February 15, 2011

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Peter Donovan, Chief Executive Officer
Middlesex Human Service Agency, Inc.
50 Prospect Street, Suite 3
Waltham, Massachusetts 02453

Dear Chief Executive Officer Donovan:

Enclosed is an audit report for your review. This audit of the Middlesex Human Service Agency, Inc. covers the audit period July 1, 2006 to May 31, 2010. This is one of a number of audits commenced and largely completed during the tenure of my predecessor, State Auditor A. Joseph DeNucci. Should you desire more information relative to this audit, please contact me.

I look forward to fostering a cooperative relationship between our respective offices. If my staff or I may be of assistance at any time, please do not hesitate to call upon us. I know we both share the goal of making government work better.

Sincerely,

A handwritten signature in black ink, appearing to read "Suzanne M. Bump".

Suzanne M. Bump

INTRODUCTION
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The Middlesex Human Service Agency, Inc. (MHSA) was organized in October 1977 as a non-profit human service agency to provide support services to adult males to help combat the debilitating effects of alcoholism and to provide emergency shelter programs for homeless men and women. Currently, the agency operates eight types of programs that offer a variety of services, including: emergency and temporary shelter, housing, food, and substance abuse services to individuals residing in the Waltham area. During the period covered by our audit, MHSA operated up to eleven programs. MHSA annually serves approximately 174,500 men and women in its programs.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. The scope of our audit was limited and only included a review of certain administrative and programmatic activities of MHSA during the period July 1, 2006 through March 31, 2010 relative to its operation of two of its state-funded shelter programs, Bristol Lodge Men’s Shelter and Bristol Lodge Women’s Shelter. Our audit objectives included (1) determining whether MHSA had implemented effective internal controls relative to its operation of these two shelter programs, and assessing whether all expenses that MHSA billed against the state contracts funding these two programs were reasonable; allowable; properly allocated; properly authorized and recorded; and in compliance with applicable laws, rules, and regulations.

We found that during our audit period, MHSA inappropriately billed and received reimbursements totaling \$37,949 in payroll expenses against its state contracts that it did not incur. Also, in some instances, MHSA was not maintaining adequate documentation to substantiate the number of consumers in its Bristol Lodge Men’s Shelter Program as required by the terms and conditions of its state contracts.

AUDIT RESULTS
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1. UNALLOWABLE PAYROLL EXPENSES TOTALING \$37,949
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During our audit period, MHSA had a contract with the state’s Department of Transitional Assistance (DTA) to operate a men’s homeless shelter program and to provide support services to homeless men in the Waltham area. In return for these services, MHSA was entitled to receive reimbursements from DTA for the actual costs it incurred in operating this program. We found, however, that during fiscal years 2007 and 2008, MHSA billed and received payments against this contract totaling \$37,949 for the payroll costs associated with two employees who we determined did not work in this program. This \$37,949 in expenses represents nonreimbursable costs against these contracts and MHSA should return these funds to the Commonwealth.

2. MHSA DID NOT MAINTAIN ALL OF ITS RECORDS IN ACCORDANCE WITH THE REQUIREMENTS OF ITS STATE CONTRACTS **6**

According to the terms and conditions of its state contracts, MHSA is required to maintain its records for a period of seven years. We found, however, that MHSA did not always meet this requirement. Specifically, it could not provide us with documentation to support the number of consumers it reported it served in its Bristol Lodge Men's Shelter program during our audit period.

APPENDIX - PROGRAMS OPERATED BY THE MIDDLESEX HUMAN SERVICE AGENCY **9**

INTRODUCTION

Background

The Middlesex Human Service Agency Inc. (MHSA) was organized in October 1977 as a non-profit human service agency for the purpose of providing a residential treatment facility to free adult males from the crippling effects of alcoholism and to provide emergency housing assistance to homeless men and women. Since this time, MHSA has expanded its services and during the period covered by our audit MHSA operated up to eleven programs that offered a variety of services including homeless assistance and educational and substance abuse services to eligible consumers. A complete listing of the programs that MHSA operated during our audit period appears in the Appendix to this report. MHSA annually serves approximately 174,500 individuals in its programs.

During fiscal years 2007 through 2009, MHSA received funding from a variety of sources, as indicated below:

	<u>Fiscal Years 2007 through 2009*</u>		
	2007	2008	2009
Contributions, Gifts, Legacies, Bequests, and Special Events	\$377,774	\$215,652	\$135,135
In-kind contributions	532,237	375,284	619,974
Grants	113,936	94,550	138,250
Program Service Fees**	5,915,042	6,785,029	7,946,210
Investment Revenue	17,200	11,345	2,245
Other	<u>27,411</u>	<u>28,664</u>	<u>37,649</u>
Total	<u>\$6,983,600</u>	<u>\$7,510,524</u>	<u>\$8,879,463</u>

* These revenue figures were extracted from the Uniform Financial Statements and Independent Auditor's Reports (UFRs) that MHSA filed with the Commonwealth.

** MHSA reported all state contract revenues that it received during fiscal years 2007 through 2009 in this category.

Audit Scope, Objectives, and Methodology

The scope of our audit included a review of certain administrative and programmatic activities of MHSA during the period July 1, 2006 through March 31, 2010. Our audit was limited in scope and only included a review of certain activities relative to MHSA's administration of two of its state-funded shelter programs, Bristol Lodge Men's Shelter and Bristol Lodge Women's Shelter.

We conducted this performance audit in accordance with generally accepted government auditing standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence that provides a reasonable basis for our findings and conclusions based on our audit objectives.

Our audit objectives included:

1. Determining whether MHSA had implemented effective internal controls over the areas reviewed, including:
 - Processes for planning, organizing, directing, and controlling program operations;
 - Policies and procedures to ensure that resource use is consistent with laws and regulations; and
 - Policies and procedures to ensure that resources are safeguarded and efficiently used.
2. Reviewing the expenses that MHSA billed against its state contracts funding these two shelter programs and determining if these expenses were reasonable; allowable; properly allocated; properly authorized and recorded; and in compliance with applicable laws, rules, and regulations.

In order to achieve our objectives, we first reviewed internal controls including the policies and procedures MHSA had developed relative to the operation of its Bristol Lodge Men's Shelter and Bristol Lodge Women's Shelter programs. We used this assessment in planning and performing our audit tests. We then held discussions with MHSA officials and reviewed organization charts; internal policies and procedures; and applicable laws, rules, and regulations. We examined MHSA's budgets, financial records, and reports and invoices to determine if expenses that it incurred in the two programs in question were reasonable; allowable; properly allocated; properly authorized and recorded; and in compliance with applicable laws, rules, and regulations.

Our audit was not conducted for the purposes of expressing an opinion on MHSA's financial statements. We also did not assess the quality and appropriateness of program services provided by MHSA under its state contracts. Rather our objective was to identify processes, methods, and internal controls that could be made more efficient and effective.

AUDIT RESULTS

1. UNALLOWABLE PAYROLL EXPENSES TOTALING \$37,949

During our audit period, MHSA had a contract with the state's Department of Transitional Assistance (DTA) to operate a men's homeless shelter program to provide shelter and related services to homeless men in the Waltham area. In return for these services, MHSA was entitled to receive reimbursements from DTA for the actual costs it incurred in operating this program. We found, however, that during fiscal years 2007 and 2008, MHSA billed and received payments against this contract totaling \$37,949 for the payroll costs associated with two employees who we determined did not work in this program. This \$37,949 in expenses represents nonreimbursable costs against these contracts and MHSA should return these funds to the Commonwealth.

During the period covered by our audit, MHSA was operating its Bristol Lodge Men's Shelter program under a cost reimbursement contract with the DTA.¹ During fiscal years 2007 through 2009, MHSA billed and received payments from DTA totaling \$319,862, \$325,230, and \$329,440, respectively, for expenses that it incurred in providing services in this shelter program. Under the terms and conditions of this contract, MHSA was to provide emergency temporary shelter and related services to homeless men in the Waltham area. In return for these services, MHSA was allowed to bill for the actual costs it incurred in providing services to consumers in this program.

During our audit, we compared MHSA's billings for staff-related expenses in this program during fiscal years 2007 and 2008, which totaled \$218,311 and \$223,141, respectively, with the timesheets of all MHSA staff members during these two fiscal years. Based on our review of this information, we found that the agency did not have any documentation to substantiate \$37,949 in payroll expenses relative to two employees who they claimed had worked in this program at some point during these two fiscal years. MHSA billed \$15,041 in payroll charges against its state contract in fiscal year 2007 for a staff worker, and \$22,908 in payroll charges during fiscal year 2008 for a maintenance worker.

¹ During fiscal year 2010, these contracts were funded by the state's Department of Housing and Community Development.

The state's Operational Services Division (OSD), the state agency responsible for regulating and overseeing the activities of all contracted human service providers such as MHSA, has promulgated regulations that, among other things, identify costs that are non-reimbursable under state contracts. In this regard, 808 Code of Massachusetts Regulations (CMR) 1.05(26) identifies the following as non-reimbursable costs under state contracts:

Costs which are not adequately documented in the light of the American Institute of Certified Public Accountants statements on auditing standards for evidential matters.

Since there is no documentation to substantiate that these \$37,949 in payroll expenses were incurred for the benefit of this program, the costs represent unallowable expenses against MHSA's state contracts and this amount should be refunded to the Commonwealth.

During our audit, we brought this matter to the attention of MHSA's Chief Executive Officer and Chief Financial Officer, who acknowledged that the two individuals in question had in fact not worked in the Bristol Lodge Men's Shelter program during these two fiscal years. The Chief Financial Officer added that a staff member in the agency's accounting department had erroneously charged these expenses against this contract and that the agency is in the process of hiring an individual who is more experienced in state accounting practices to take over the accounting and billing activities relative to the agency's state-funded programs.

Recommendation

MHSA should remit to DTA the \$37,949 in unallowable payroll expenses it charged against the state contract that funded its Bristol Lodge Men's Shelter program during fiscal years 2007 and 2008. Also, MHSA needs to take measures to ensure that in the future, it only charges allowable costs to its state contracts.

Auditee's Response

In response to this issue, MHSA's Chief Executive Officer provided the following comments:

MHSA admits to accounting errors for this amount. MHSA has adopted your recommendation of hiring a more qualified staff person to take over the accounting and billing activities relative to the Agencies State funded programs. On November 3, 2010 MHSA hired a Certified Public Accountant, to a 24 hour per week part time position. Her primary duties are to assist the Chief Financial Officer on all aspects of the accounting department. MHSA also agrees to submit the payment of \$37,949, to the State when requested to do so.

2. MHSA DID NOT MAINTAIN ALL OF ITS RECORDS IN ACCORDANCE WITH THE REQUIREMENTS OF ITS STATE CONTRACTS

According to the terms and conditions of its state contracts, MHSA is required to maintain its records for a period of seven years. We found, however, that MHSA did not always meet this requirement. Specifically, it could not always provide us with documentation to support the number of consumers it reported it served in their Bristol Lodge Men's Shelter program during our audit period.

The state's Executive Office for Administration and Finance, the Office of the State Comptroller, and OSD have jointly issued the Commonwealth Terms and Conditions for Human and Social Services (Contract Conditions), with which all human service providers who contract with the Commonwealth must comply. Regarding the retention of records, section seven of the Contract Conditions states:

...The Contractor shall maintain records, books, files and other data as required by 808 CMR 1.00 and as specified in a Contract and in such detail as shall properly substantiate claims for payment under a Contract, for a minimum retention period of seven (7) years beginning on the first day after the final payment under a Contract, or such longer period as is necessary for the resolution of any litigation, claim, negotiation, audit or other inquiry involving a Contract. The Contractor shall maintain adequate written policies and procedures for accounting, management and personnel activities, including but not limited to conflict of interest and nepotism policies...

According to MHSA officials, when a consumer enters one of its shelter programs, they are required to present some form of picture identification to the caseworker in the program. The caseworker then makes a copy of this identification and works with the consumer in completing a program intake form. The program intake form includes demographic information about the consumer, his or her name, social security number, prior housing information, and date of the most recent tuberculosis test (consumers must be tested for tuberculosis within 14 days of entering the shelter program in order to be able to remain in the program). Once a consumer has been registered in the program, they are allowed to stay a maximum of 90 days per intake at the shelter and have to re-register each time they use the program. Consumers are allowed to leave the program each day but the program maintains a daily shelter log, called a bed list, to monitor actual attendance in the program. Specifically, if consumers intend to spend a night in the shelter, they must circle their name on this bed list in order to reserve a bed. According to the terms and conditions of its contract with DTA, the agency is required to report the number of consumers that it serves in this shelter program on a monthly basis to DTA's automated

Statewide Homeless Operations and Research Environment (SHORE) system. In order to comply with this requirement, each day the shelter's Program Director will use this program's bed list as the program's attendance record and will input this information using the state's Gateway System into SHORE. As previously mentioned, MHSA is not paid under the contract that funds this shelter program based on the number of consumers it serves, but rather is reimbursed by DTA for the actual costs it incurs in operating this program. However, this attendance information is used by the DTA to monitor program information including the overall demand for shelter program services.

During our audit, we judgmentally selected the names of 68 consumers who, according to the information we obtained from SHORE, were registered in MHSA's Bristol Lodge Men's Shelter during the period covered by our audit. We then asked MHSA officials to provide us with all the documentation the agency maintained relative to these 68 consumers. In response to our request, MHSA officials were able to provide us with information on 63 of these 68 consumers but were unable to provide us with files that contained any program intake information for five of these individuals. We brought this matter to the attention of agency officials and were informed by MHSA's Director of Operations that there may be no files for these five individuals because in some cases, police or other concerned citizens drop off temporary homeless individuals at the shelter who may sleep there for one night but leave before shelter staff can process their intake information. Since the agency could not provide us with any intake information for these five individuals, we asked MHSA officials to provide us with the bed lists that covered the time period in question so that we could at least confirm that these five individuals had attended the shelter program. However, in response to our request, MHSA officials told us that bed lists are routinely shredded and that staff usually only maintain bed lists for the two most recently completed months.

Recommendation

In order to address our concerns relative to this matter, MHSA should implement policies and procedures to ensure that intake information is obtained for all consumers who receive services in any of its shelter programs and that all intake information is maintained by the agency for at least seven years, as required by the terms and conditions of its state contracts.

Auditee's Response

In response to this issue, MHSA's Chief Executive Officer provided the following comments:

In response to this finding, MHSA concurs. However, after saying that, we feel that the Program Director of the Men's/Women's Shelters felt that she was keeping the daily lists by using the State's Virtual Gateway HMIS. Since 2005, when this system was implemented, the Program Director used this list to serve as the Daily Logs for the shelters. After talking with your auditors, it was established that we need to keep the hand written bed lists on a daily basis. Based on their recommendations on September 13, 2010, we have implemented a new Policy and Procedure for the daily bed lists at both shelters.

Bed Lists, listing the names of each resident, corresponding to the Shelter's bed numbers, inclusive of all relevant date... shall be completed and retained on a daily basis. The initials of each resident in-house, along with any appropriate comment or information on each resident's status, shall be included on the Bed List.

Original Bed Lists shall be maintained on file, on a calendar month basis for each month until or about the fifteenth (15th) day of the succeeding month. At that time, the original Bed Lists for the preceding month shall be delivered to the MHSA Central Office. (For example: the original Bed Lists for the month of September, 2010, shall be delivered to the Central Office on, or about, October 15, 2010.)

All original Bed Lists received on a monthly basis shall be scanned and stored electronically on memory sticks. Such stored information shall be retained by MHSA for a period of seven (7) years, and shall be backed up electronically.

Original Bed Lists, once scanned and stored, shall be destroyed.

Auditor's Reply

We believe the actions taken by MHSA relative to this matter were appropriate and responsive to our concerns.

APPENDIX

PROGRAMS OPERATED BY THE MIDDLESEX HUMAN SERVICE AGENCY

Programs Funded by the Department of Public Health

1. Answer House

Answer House is a residential treatment facility providing an intensive substance abuse program for adult males. The program enables residents to help themselves maintain sobriety while renewing their careers and responsibilities to their families and to society.

2. Driving under the Influence of Liquor (DUIL)

DUIL is a DPH-licensed, eighty-four (84) bed facility providing services to individuals convicted of two drunken driving violations.

3. Sullivan House

Sullivan House is a residential facility providing an intensive substance abuse treatment program for adult males. Sullivan House is located in a multiracial, multicultural residential neighborhood and can accommodate 24 adult males, with facilities for seven physically impaired clients in accordance with the Americans with Disabilities Act.

4. Project Outreach (1990-2007)

Project Outreach was a unique prevention counseling and educational program designed to serve adolescents and their families with substance abuse and related problems.

The Program had four components:

- Prevention workshops to a variety of groups including students and teachers, sports teams, and community residents. The topics include substance abuse, HIV awareness, teen violence, teen sexuality, etc.
- Assessment, individual, family and group counseling services focused on substance abuse and related issues.
- A court diversion program for those identified through the judicial system-channeling adolescents through an assessment, educational and counseling program.
- Outreach counselors spent time on-site in community areas where there was alcohol and drug related concerns.

Programs Funded by the Department Of Housing and Community Development***1. Bristol Lodge Men's Shelter**

This men's shelter provides emergency shelter to approximately 45 homeless men each night. Staff consists of support staff and case managers, each trained to provide a variety of specialized and essential services. Support staff members are trained to provide all guests with a safe and supportive environment. Case Managers help guests locate permanent housing, provide supportive counseling, refer guests to other agencies as needed, organize in-house AA meetings, offer employment counseling groups, and assist guests with entitlement benefits such as SSI or SSDI.

2. Bristol Lodge Women's Shelter

This women's shelter provides emergency shelter for approximately 12 homeless women each night. The shelter provides housing, help, and hope to women. MHSA offers the tools and guidance which allow women to return to their communities, become self-sufficient, and live independently.

3. Mary's House Family Shelter

Mary's House is an emergency intake shelter providing temporary housing in Waltham for homeless families. Families can work on issues relevant to homelessness and securing permanent housing with the help of our staff and housing advocates. All residents are involved with the day-to-day activities in the shelter and the family life program support services. Referrals to other social services and legal and mental health programs are provided as needed. When residents leave for permanent housing, MHSA offers a follow-up support program to assist them with the transition to independent living. This program will move families who are currently located in a hotel/motel into an independent living environment. The concept is to offer a more suitable, comfortable facility that would not be as detrimental to the health, safety, and well-being of the children of these families.

4. Scattered Sites

MHSA's Scattered Sites program provides temporary apartments and services for homeless families. Families must meet eligibility requirements and be referred by a state agency.

Other Programs Operated by MHSA**Bristol Lodge Soup Kitchen**

This program serves approximately 60 to 110 people on a nightly basis who are provided a hot meal prepared and served by volunteers. The kitchen is partially funded by a Community Development Block Grant fund and relies heavily on volunteers, donated food, and paper products from local businesses, churches, schools, and individual residents of Waltham and the surrounding communities.

*As previously noted, prior to fiscal year 2010, these programs were funded by contracts with the state's Department of Transitional Assistance.

Family Homeless Shelters (1998 – 2009)

This program was run on the grounds of the old Walter E. Fernald School in Waltham and provided emergency temporary housing. The physical facilities were known as Sandra's Lodge which could provide shelter to 39 families and Hestia House, Olivia's Place and Warren Hall which could accommodate 16 families each. The shelter program was funded principally by the Department of Transitional Assistance.

Prospect Terrace Children's Center (2004 – 2007)

The program provided preschool and school age children daycare and various learning opportunities.